

**SKYLINE INVESTMENTS INC.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
June 30, 2017
and 2016
(UNAUDITED)**

SKYLINE INVESTMENTS INC.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2017
(UNAUDITED)

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SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian Dollars)

	As at		
	June 30, 2017 <i>(Unaudited)</i>	June 30, 2016 <i>(Unaudited)</i>	December 31, 2016 <i>(Audited)</i>
ASSETS			
Current			
Cash and cash equivalents	18,192	12,191	29,837
Trade receivables	5,337	17,558	17,264
Other receivables	12,099	8,265	14,463
Prepayments	3,112	2,344	2,331
Inventories	1,571	1,643	1,780
Real estate inventory	69,446	52,156	58,651
Property held for sale	18,614	38,083	18,357
Restricted bank deposits	4,029	5,292	3,054
Total current assets	<u>132,400</u>	<u>137,532</u>	<u>145,737</u>
Non-current			
Restricted bank deposits	4,918	873	952
Financial derivative	4,558	--	--
Investment properties	89,244	89,062	90,783
Property, plant and equipment, at cost	3,724	140,045	3,920
Property, plant and equipment, at fair value	272,089	--	271,612
Other assets	408	486	381
Deferred tax	7,154	9,668	6,368
Total non-current assets	<u>382,095</u>	<u>240,134</u>	<u>374,016</u>
Total Assets	<u>514,495</u>	<u>377,666</u>	<u>519,753</u>
LIABILITIES AND EQUITY			
Current			
Loans payable	18,294	63,129	26,449
Bonds - current maturities	2,101	--	1,105
Loans payable on property held for sale	--	12,069	--
Loans payable to related parties	--	16	--
Trade payables	5,668	7,012	8,025
Other payables and credit balances	14,993	12,855	15,485
Deferred revenue	7,301	7,133	6,910
Income taxes payable	110	936 *)	972 *)
Purchasers' Deposits	7,707	4,745	6,698
Total current liabilities	<u>56,174</u>	<u>107,895</u>	<u>65,644</u>
Non-current			
Loans payable	64,258	56,953	61,125
Bonds	44,055	--	42,306
Other liabilities	2,334	2,984	2,577
Deferred tax	61,227	34,339 *)	60,729 *)
Total non-current liabilities	<u>171,874</u>	<u>94,276</u>	<u>166,737</u>
Total liabilities	<u>228,048</u>	<u>202,171</u>	<u>232,381</u>
Shareholders' Equity			
Equity attributable to Shareholders of the Company	244,734	155,846	245,968
Non-controlling interest	41,713	19,649 *)	41,404 *)
Shareholders Equity	<u>286,447</u>	<u>175,495</u>	<u>287,372</u>
Total Liabilities and Equity	<u>514,495</u>	<u>377,666</u>	<u>519,753</u>

*) | See note 2e

Commitments, contingencies and charges

Subsequent Events

The accompanying notes are an integral part of these interim consolidated financial statements.

On Behalf of the Board of Directors:

Gil Blutrigh
Chairman

Blake Lyon
CEO

Vadim Shub
CFO

August 10, 2017

Date

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars, except per share amounts)

	FOR THREE MONTHS ENDED		FOR SIX MONTHS ENDED		FOR THE YEAR ENDED
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	December 31, 2016 (Audited)
REVENUE					
Hospitality income	24,724	26,665	57,609	60,085	118,502
Income from investment properties	926	956	1,796	1,911	3,695
Sale of residential real estate	462	4,801	1,354	18,335	25,551
Other operation income	--	31	66	218	246
	<u>26,112</u>	<u>32,453</u>	<u>60,825</u>	<u>80,549</u>	<u>147,994</u>
EXPENSES AND COSTS					
Hospitality operating expenses	22,544	23,666	48,453	50,767	99,799
Operating expenses of investment properties	231	346	534	647	1,577
Cost of sale of residential real estate	641	4,200	968	17,303	23,540
Development periodic costs	394	546	786	835	1,458
Other operation expense	60	17	76	42	85
Depreciation	2,779	1,546	5,309	3,213	6,635
Write-down (appreciation) of real estate inventory to net realisable value	(355)	2,655	(355)	2,655	2,993
	<u>26,294</u>	<u>32,976</u>	<u>55,771</u>	<u>75,462</u>	<u>136,087</u>
GROSS PROFIT	(182)	(523)	5,054	5,087	11,907
Loss (gain) from fair value adjustments	(4,978)	(2,884)	(4,903)	(2,790)	(7,095)
Selling and marketing expenses	234	397	385	853	1,463
Administrative and general expenses	1,108	1,035	2,214	2,159	4,895
PROFIT FROM OPERATIONS	3,454	929	7,358	4,865	12,644
Financial expense	2,495	2,187	4,412	4,276	10,332
Financial income	(741)	--	(2,192)	(7)	(211)
Other expense (income)	(22)	6	479	(33)	869
Gain on sale of investment	(9)	--	17	--	(8,574)
PROFIT BEFORE INCOME TAXES	1,731	(1,264)	4,642	629	10,228
Income tax expense	414	(585) *)	1,598	127 *)	2,191 *)
PROFIT FOR THE PERIOD	1,317	(679)	3,044	502	8,037
Attributable to:					
Shareholders of the Company	4	(3,152)	1,907	(1,441)	3,910
Non-controlling interest	1,313	2,473 *)	1,137	1,943 *)	4,127 *)
	<u>1,317</u>	<u>(679)</u>	<u>3,044</u>	<u>502</u>	<u>8,037</u>
BASIC EARNINGS PER SHARE	--	(0.19)	0.11	(0.09)	0.23
DILUTED EARNINGS PER SHARE	--	(0.19)	0.11	(0.09)	0.23

*) See note 2e

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian Dollars)

	FOR THE THREE MONTHS ENDED		FOR SIX MONTHS ENDED		FOR THE YEAR ENDED
	June 30, 2017 <i>(Unaudited)</i>	June 30, 2016 <i>(Unaudited)</i>	June 30, 2017 <i>(Unaudited)</i>	June 30, 2016 <i>(Unaudited)</i>	December 31, 2016 <i>(Audited)</i>
PROFIT FOR THE PERIOD	1,317	(679) *	3,044	502 *	8,037 *
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Revaluation surplus (loss) of property, plant and equipment, before income taxes	--	--	--	--	132,221
Income taxes	--	--	--	--	(27,769) *
Items that will or may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	(1,845)	145	(2,468)	(1,409)	(306)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD net of taxes	(1,845)	145	(2,468)	(1,409)	104,146
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, net of taxes	(528)	(534)	576	(907)	112,183
Attributable to:					
Shareholders of the Company	(1,123)	(3,077)	267	(2,767)	87,277
Non-controlling interest	595	2,543 *	309	1,860 *	24,906 *
	(528)	(534)	576	(907)	112,183

*) | See note 2e

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
FOR THREE MONTHS ENDED June 30, 2017										
<i>(Unaudited)</i>										
Balance at the beginning of the period	78,779	519	83,464	377	125	4,599	79,737	247,600	41,118	288,718
Profit for the period	--	--	--	--	--	--	4	4	1,313	1,317
Other comprehensive income (loss) for the period	--	--	(720)	--	--	(407)	--	(1,127)	(718)	(1,845)
Total comprehensive Income (loss) for the period	--	--	(720)	--	--	(407)	4	(1,123)	595	(528)
Dividend Distribution	--	--	--	--	--	--	(1,829)	(1,829)	--	(1,829)
Recognition of Share-based payment	--	--	--	86	--	--	--	86	--	86
Balance at the end of the period	78,779	519	82,744	463	125	4,192	77,912	244,734	41,713	286,447

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest *)	Total
FOR THREE MONTHS ENDED June 30, 2016										
<i>(Unaudited)</i>										
Balance at the beginning of the period	77,900	519	2,804	879	125	3,808	72,831	158,866	12,061	170,927
Investment in subsidiary	--	--	--	--	--	--	--	--	5,045	5,045
Loss for the period	--	--	--	--	--	--	(3,152)	(3,152)	2,473	(679)
Other comprehensive (loss) for the period	--	--	--	--	--	75	--	75	70	145
Total comprehensive Income (loss) for the period	--	--	--	--	--	75	(3,152)	(3,077)	2,543	(534)
Recognition of Share-based	--	--	--	57	--	--	--	57	--	57
Balance at the end of the period	77,900	519	2,804	936	125	3,883	69,679	155,846	19,649	175,495

*) | See note 2e

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest	Total
FOR SIX MONTHS ENDED June 30, 2017										
<i>(Unaudited)</i>										
Balance at the beginning of the period	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372
Issuance of new shares	879	--	--	(879)	--	--	--	--	--	--
Profit for the period	--	--	--	--	--	--	1,907	1,907	1,137	3,044
Other comprehensive income for the year	--	--	(1,005)	--	--	(635)	--	(1,640)	(828)	(2,468)
Total comprehensive income for the year	--	--	(1,005)	--	--	(635)	1,907	267	309	576
Dividend Distribution	--	--	--	--	--	--	(1,829)	(1,829)	--	(1,829)
Recognition of Share-based payment	--	--	--	328	--	--	--	328	--	328
Balance at the end of the period	78,779	519	82,744	463	125	4,192	77,912	244,734	41,713	286,447
FOR SIX MONTHS ENDED June 30, 2016										
<i>(Unaudited)</i>										
Balance at the beginning of the period	77,900	519	2,804	874	125	5,209	71,120	158,551	12,744	171,295
Investment in subsidiary	--	--	--	--	--	--	--	--	5,045	5,045
Profit for the year	--	--	--	--	--	--	(1,441)	(1,441)	1,943	502
Other comprehensive income for the year	--	--	--	--	--	(1,326)	--	(1,326)	(83)	(1,409)
Total comprehensive Income for the year	--	--	--	--	--	(1,326)	(1,441)	(2,767)	1,860	(907)
Recognition of Share-based payment	--	--	--	62	--	--	--	62	--	62
Balance at the end of the period	77,900	519	2,804	936	125	3,883	69,679	155,846	19,649	175,495

*) | See note 2e

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian Dollars)

	Share Capital and Premium	Warrant Certificates	Re-valuation Surplus	Equity Settled Service Reserve	Related Party Surplus	Foreign Exchange translation	Retained Earnings	Total shareholders' equity	Non- controlling Interest *)	Total
FOR THE YEAR ENDED December 31, 2016										
<i>(Audited)</i>										
Balance at the beginning of the period	77,900	519	2,804	874	125	5,209	71,120	158,551	12,744	171,295
Investment in subsidiary	--	--	--	--	--	--	--	--	5,045	5,045
Profit for the period	--	--	--	--	--	--	3,910	3,910	4,127	8,037
Other comprehensive income for the year	--	--	83,749	--	--	(382)	--	83,367	20,779	104,146
Total comprehensive Income for the year	--	--	83,749	--	--	(382)	3,910	87,277	24,906	112,183
Dividend	--	--	--	--	--	--	--	--	(1,291)	(1,291)
Revaluation surplus, recognized net of taxes	--	--	(2,804)	--	--	--	2,804	--	--	--
Recognition of Share-based payment	--	--	--	140	--	--	--	140	--	140
Balance at the end of the period	77,900	519	83,749	1,014	125	4,827	77,834	245,968	41,404	287,372

*) | See note 2e

The accompanying notes are an integral part of these consolidated financial statements.

SKYLINE INVESTMENTS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian Dollars)

	FOR THREE MONTHS ENDED		FOR SIX MONTHS ENDED		FOR THE
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	YEAR ENDED December 31, 2016 (Audited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES					
Cash Flow from Operating Activities					
Profit (Loss) for the period	1,317	(679) *)	3,044	502 *)	8,037 *)
Add (deduct) items not involving cash:					
Depreciation and amortization	3,696	1,642	6,463	3,446	7,552
Gain from fair value adjustments	(4,978)	(2,884)	(4,903)	(2,790)	(7,095)
Gain on sale of investment and other property	--	6	--	(33)	(8,574)
Financing costs from bonds	1,343	--	4,099	--	3,040
Financing (income) cost from financial derivative	(1,251)	--	(4,558)	--	--
Deferred tax, net	98	(1,301) *)	955	(749) *)	207 *)
Write-down of real estate inventory to net realisable value	(355)	2,655	(355)	2,655	2,993
Equity settled service reserve	86	57	328	62	140
Changes in non-cash working capital					
Trade receivables	(70)	(3,699)	11,927	(13,003)	(12,709)
Other receivables and prepayments	(79)	(1,011)	1,583	(790)	(6,975)
Restricted bank deposits	(239)	53	(1,691)	227	2,386
Inventories	(192)	(141)	209	289	152
Real Estate Inventory	(2,308)	1,533	(4,305)	9,000	8,817
Trade and other payables and credit balances	(1,333)	1,032	(3,812)	(3,965)	(1,905)
Income taxes payable	451	781	(862)	1,026	1,556
Purchasers' Deposits	593	(305)	1,009	(1,634)	319
	<u>(3,221)</u>	<u>(2,261)</u>	<u>9,131</u>	<u>(5,757)</u>	<u>(2,059)</u>
Cash Flow from Investing Activities					
Proceeds from asset held for sale	--	--	--	460	460
Additions to investment properties	(111)	(210)	(205)	(304)	(671)
Investment in restricted long term deposit	--	--	(3,250)	--	--
Additions to property, plant and equipment	(5,354)	(2,353)	(10,712)	(2,834)	(12,509)
Proceeds from sale of property, plant and equipment	58	5	76	201	30,847
	<u>(5,407)</u>	<u>(2,558)</u>	<u>(14,091)</u>	<u>(2,477)</u>	<u>18,127</u>
Cash Flow from Financing Activities					
Bank credit and other short-term loans	2,640	1,589	(7,697)	3,150	8,792
Issuance of bonds payable	--	--	--	--	41,461
Proceeds on loans payable	3,357	9,979	21,453	26,080	30,445
Repayments of loans payable	(940)	(1,032)	(17,385)	(16,000)	(72,385)
Distribution by a subsidiary to its non-controlling shareholders	--	--	--	--	(1,291)
Dividend Distribution	(1,829)	--	(1,829)	--	--
Repayments of loans payable to related parties	--	(6,723)	--	(6,723)	(6,739)
Change in other liabilities	(218)	(1)	(243)	(46)	(453)
Deferred financing costs paid	(933)	88	(1,166)	(617)	(726)
	<u>2,077</u>	<u>3,900</u>	<u>(6,867)</u>	<u>5,844</u>	<u>(896)</u>
Foreign Exchange translation of foreign operations	(160)	176	182	376	461
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(6,711)	(743)	(11,645)	(2,014)	15,633
Cash and cash equivalents, beginning of the year	24,903	12,933	29,837	14,204	14,204
CASH AND CASH EQUIVALENTS, END OF PERIOD	18,192	12,190	18,192	12,190	29,837
SUPPLEMENTAL CASH FLOW INFORMATION					
Interest paid	1,258	2,183	3,175	4,207	6,564
Interest received	18	--	51	7	211
Income taxes paid	684	214	684	214	248
Significant non-cash transactions					
Conversion of third party loan to equity (non-controlling interest)	--	5,045	--	5,045	5,045

*) See note 2e

The accompanying notes are an integral part of these interim consolidated financial statements.

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2017

(in thousands of Canadian Dollars)

1 NATURE OF OPERATIONS

Skyline Investments Inc. ("Skyline" or the "Company") was incorporated on December 4, 1998 under the *Business Corporations Act (Ontario)*. Traded on the Tel-Aviv Stock Exchange (TASE) in Israel and a public issuer in Ontario, Canada. The Company and its subsidiaries are involved in the acquisition, ownership and development of hospitality and destination communities in Ontario and the United States. The Company's normal operating cycle is twelve months except for the development activities, which are in excess of twelve months and typically range between three to four years.

The Company is 66.13% owned by Skyline Canada-Israel Ltd, a majority of shares of which are owned by Mishorim Real Estate Investments Ltd (former: Mishorim Development Corporation Ltd.), a public company whose shares are traded on the Tel-Aviv Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the interim condensed consolidated financial statements:

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

(b) New standards, interpretations and amendments initially adopted by the Company:

The significant accounting policies and methods of computation adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements.

(c) Non-current asset and / or a group of assets held for sale

IFRS 15 Revenue from Contracts with Customers ("IFRS 15"):

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 will be mandatory effective for annual periods starting from 1st of January 2018 or after. Early implementation is possible. The Company had early implemented IFRS 15 since January 1st 2017. The implementation of IFRS 15 did not had an impact on the Company's financial statements. Revenue recognition from selling residential units will continue to be recognized on "interim closing" (as described in note 2 of the annual financial statements) as the conditions of IFRS15.35c do not meet.

IFRS 5, "Assets held for sale"

Non-current asset and / or a group of assets held for sale, as well as the liabilities related to these assets must be available for immediate sale in its present condition, the management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. The sale should be expected to qualify for recognition as completed in one year from the date of classification and must be highly probable. These assets cease to be amortized from the date of such classification and presented separately as current assets at the lower of their carrying amount or fair value less costs to sell, except investment properties, which are measured at fair value and financial liabilities measured at amortized cost.

(d) Exchange rate (CAD/USD)

Results of operations and balances are affected by changes in US dollar. Since January 1, 2017 until June 30, 2017 the foreign exchange rate of the U.S. dollar compared to the Canadian dollar decreased by approximately 1%. From June 30, 2017 until the date those financial statements were published the U.S. dollar decreased by approximately 2% compared to Canadian dollar.

	30-Jun-17	30-Jun-16	31-Dec-16
Exchange rate (CAD per 1 USD)	1.298	1.292	1.343
Average Exchange rate (CAD per 1 USD)	1.334	1.330	1.325

SKYLINE INVESTMENTS INC.
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2017

(in thousands of Canadian Dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Immaterial adjustment

The comparative figures as for the six and the three months ended on June 30, 2016, as well as for the year ended December 31, 2016 as presented in the current financial statements, include an immaterial adjustment to reflect the Company's portion as well as the non-controlling interest in tax liability of the Renaissance Hotel in United States:

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at June 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Income taxes payable	1,137	(201)	936
Deferred tax (liability)	35,773	(1,434)	34,339
Non-controlling interest	18,014	1,635	19,649

	As at December 31, 2016		
	As reported in the past	reclassification effect	As currently reported
Income taxes payable	1,667	(695)	972
Deferred tax (liability)	69,417	(8,688)	60,729
Non-controlling interest	32,021	9,383	41,404

INTERIM CONSOLIDATED STATEMENTS OF INCOME

	For the three months ended June 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Income tax expense	(291)	(294)	(585)
Non-controlling interest	2,179	294	2,473

	For the six months ended June 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Income tax expense	251	(124)	127
Non-controlling interest	1,819	124	1,943

	For the year ended December 31, 2016		
	As reported in the past	reclassification effect	As currently reported
Income tax expense	2,775	(584)	2,191
Non-controlling interest	3,543	584	4,127

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the three months ended June 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Profit (Loss) for the period	(973)	294	(679)
Non-controlling interest	2,249	294	2,543

	For the six months ended June 30, 2016		
	As reported in the past	reclassification effect	As currently reported
Profit (Loss) for the period	378	124	502
Non-controlling interest	1,736	124	1,860

SKYLINE INVESTMENTS INC.
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FOR THE PERIOD ENDED JUNE 30, 2017

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

	For the year ended December 31, 2016		
	As reported in the past	reclassification effect	As currently reported
Profit (Loss) for the period	7,453	584	8,037
Income taxes	(35,057)	7,288	(27,769)
Non-controlling interest	17,034	7,872	24,906

3 SEASONALITY AND OTHER DISCLOSURES

The Company's hospitality segment operations are seasonal due to its nature. The results of operations and the revenue are typically substantially better during winter and summer seasons.

The Company's current liabilities include \$20,395 current maturities of long term loans, bonds and short term construction debt. There is a net cash inflow from operations of \$9,131 as per the consolidated statements of cash flow for the six months ended June 30, 2017. A net cash outflow from operations, when applicable, is not expected to adversely affect the Company's business operations, since according to its past experience, financial institutions refinance the loans in addition to the fact that there are a substantial number of potential lenders.

4 FAIR VALUE MEASUREMENT

Categories of assets and liabilities subject to fair value measurement

The estimated fair values of loans payable are as follows:

	Fair value		Carrying amount	
	As at June 30, 2017	As at June 30, 2016	As at June 30, 2017	As at June 30, 2016
Loans payable	81,426	131,430	82,552	132,151
Bonds (1)	52,067	-	46,156	-
Financial derivative (2)	4,558	-	4,558	-
Loans payable to related parties	-	16	-	16

(1) The Fair value is based on Tel-Aviv Stock Exchange quote (in New Israeli Shekels) for June 30, 2017 and translated to CAD using a currency NIS/CAD quote provided on Bank of Israel web site.

The Carrying amount is net of costs of 1.6 million CAD, which incurred to issue the bonds.

(2) The fair value is based on bank statement as of June 30, 2017

5 SIGNIFICANT EVENTS DURING THE PERIOD

a. Employee stock options plan

On November 14, 2016 the Board of Directors approved granting 290,000 employee options. The option plan was approved by Tel-Aviv Stock Exchange on March 16, 2017. The fair value of the options at the grant date was determined using Binomial model. Where relevant, the expected life used in the models has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. Expected volatility is based on the historical share price volatility of similar companies including the Parent Company, which management estimates to approximate the volatility in value of the Company's shares.

In February 1, 2017 the Executive Options expired and the associated value was classified from Equity Settled Service Reserve into Share Capital and Premium.

b. Loan refinancing

During March 2017, the Company's subsidiary refinanced one of its properties and obtained a new \$17,000 US 5-year loan, with an option to extend the loan by additional two years. The principal, amortized over 25 years, is to be repaid on a monthly basis as from May 5, 2019. An amount of \$14,600 US was received on March 17, 2017 and additional amount \$1,400 US was received during the second quarter of 2017. The loan is bearing annual interest of 2.50% above 30 day libor (3.40%). The Company, as a 50% recourse guarantor, is required to maintain certain financial covenants, as customary for this type of transactions, as well as a minimum liquid cash balance.

c. Financial derivative

On January 18, 2017 the Company purchased a financial instrument, to hedge its cash flow exposure to New Israeli Shekel due to its outstanding obligation for Series 1 bonds. As a result of this transaction, the Company will settle its bond obligations like they were borrowed in Canadian dollars at a nominal fixed interest rate in a range of 5.5%-6.5% instead of payment in New Israeli Shekel at 5.2%. This financial instrument covers 100% of expected future payments of the Company's bond obligation and interest. As per an agreement with the Bank, the Company invested \$3,250 in a restricted deposit. The revaluation of the financial instrument is recognized through the statement of income.

d. Credit line

In March 2017, the Company secured a \$20,000 line of credit, while the Horseshoe resort is a collateral. The credit line is bearing an interest of Prime+2% (as for June 30, 2017 approximately 4.70%). The Company is required to maintain certain covenants, as customary for this type of transactions.

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5 SIGNIFICANT EVENTS DURING THE PERIOD (continued)

e. Contingent liabilities

The Company was served claims totaling \$2,138 in relation to certain construction projects and issued a counterclaim of \$4,000. In addition, the Company was served with several claims totaling approximately \$300. Based on, inter alia, Company's legal advisors, the management believes that the recorded provision in the financial statements is appropriate.

On October 21, 2009, a legal claim of approximately \$8,000 was delivered to the offices of the Company's parent company, naming the parent company, its major shareholder, the Company, and some of its subsidiaries as defendants. The claim was served by a group of individuals that purchased approximately 20 condo rooms in Cosmopolitan and Pantages hotels. As from the date the ordinal claim was filed, most of it was dismissed without costs. As for December 31, 2016 a cumulative amount of appeals summing to approximately \$500 are still pending court decision. Based on Company's legal advisors' advise, the management of the Company believes that it is more likely than not the appeals will be dismissed.

In May 2017 the Company settled a claim with one of its former service providers and agreed to pay \$430.

f. Dividend distribution

Following the board of directors approval to distribute 5,000NIS (approximately \$1,800) dividend to its share holders, the Company distributed the dividend on April 18, 2017.

6 SEGMENTED INFORMATION

The Company operates within the commercial investment property business, land development business, and hospitality business. The following summary presents segmented financial information for the Company's principal areas of business by industry. All of the Company's operating segments operate in Ontario, Canada, California, USA and Ohio, USA.

(a) General business segments

1. Hospitality USA - Includes the acquisition, ownership and management of hotels, portion of hotels and extended stay operations in USA.
2. Hospitality Canada - Includes the acquisition, ownership and management of hotels, portion of hotels and extended stay operations in Canada.
3. Investment properties - Includes acquisition, ownership and management of commercial investment properties.
4. Development - Includes the development, purchase and sale of real estate properties including lands accounted as per IAS 40.
5. Other - Other

(b) The following presents financial information for these segments:

	For the three months ended June 30, 2017 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	15,480	9,244	--	--	--	24,724
Income from investment properties	--	--	926	--	--	926
Sale of residential real estate	--	--	--	462	--	462
	<u>15,480</u>	<u>9,244</u>	<u>926</u>	<u>462</u>	<u>--</u>	<u>26,112</u>
EXPENSES AND COSTS						
Hospitality operating expenses	13,731	8,813	--	--	--	22,544
Operating expenses of investment properties	--	--	231	--	--	231
Cost of sale of residential real estate	--	--	--	641	--	641
Development periodic costs	--	--	8	386	--	394
Other operation expense	--	--	--	--	60	60
Depreciation	1,656	1,119	--	--	4	2,779
Write-down (appreciation) of real estate inventory to net realisable value	--	--	--	(355)	--	(355)
	<u>15,387</u>	<u>9,932</u>	<u>239</u>	<u>672</u>	<u>64</u>	<u>26,294</u>
SEGMENTED RESULTS	<u>93</u>	<u>(688)</u>	<u>687</u>	<u>(210)</u>	<u>(64)</u>	<u>(182)</u>
Loss (gain) from fair value adjustments	--	--	--	(4,978)	--	(4,978)
Selling and marketing expenses						234
Administrative and general expenses						1,108
Financial expense						2,495
Financial income						(741)
Other expense (income)						(22)
Gain on sale of investment						(9)
PROFIT BEFORE INCOME TAXES						<u>1,731</u>

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6 SEGMENTED INFORMATION (continued)

	For the three months ended June 30, 2016 (unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
REVENUE						
Hospitality income	16,605	10,060	--	--	--	26,665
Income from investment properties	--	--	956	--	--	956
Sale of residential real estate	--	--	--	4,801	--	4,801
Other operation income	--	--	--	--	31	31
	<u>16,605</u>	<u>10,060</u>	<u>956</u>	<u>4,801</u>	<u>31</u>	<u>32,453</u>
EXPENSES AND COSTS						
Hospitality operating expenses	13,377	10,289	--	--	--	23,666
Operating expenses of investment properties	--	--	346	--	--	346
Cost of sale of residential real estate	--	--	--	4,200	--	4,200
Development periodic costs	--	--	--	546	--	546
Other operation expense	--	--	--	--	17	17
Depreciation	703	822	--	17	4	1,546
Write-down (appreciation) of real estate inventory to net realisable value	--	--	--	2,655	--	2,655
	<u>14,080</u>	<u>11,111</u>	<u>346</u>	<u>7,418</u>	<u>21</u>	<u>32,976</u>
SEGMENTED RESULTS	2,525	(1,051)	610	(2,617)	10	(523)
Loss (gain) from fair value adjustments	--	-	--	(2,884)	--	(2,884)
Selling and marketing expenses						397
Administrative and general expenses						1,035
Financial expense						2,187
Other expense (income)						6
PROFIT BEFORE INCOME TAXES						(1,264)

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SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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6 SEGMENTED INFORMATION (continued)

	For the six months ended June 30, 2017 (unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
REVENUE						
Hospitality income	34,911	22,698	--	--	--	57,609
Income from investment properties	--	--	1,796	--	--	1,796
Sale of residential real estate	--	--	--	1,354	--	1,354
Other operation income	--	--	--	--	66	66
	34,911	22,698	1,796	1,354	66	60,825
EXPENSES AND COSTS						
Hospitality operating expenses	29,282	19,171	--	--	--	48,453
Operating expenses of investment properties	--	--	534	--	--	534
Cost of sale of residential real estate	--	--	--	968	--	968
Development periodic costs	--	--	35	751	--	786
Other operation expense	--	--	--	--	76	76
Depreciation	3,043	2,258	--	--	8	5,309
Write-down (appreciation) of real estate inventory to net realisable value	--	--	--	(355)	--	(355)
	32,325	21,429	569	1,364	84	55,771
SEGMENTED RESULTS	2,586	1,269	1,227	(10)	(18)	5,054
Loss (gain) from fair value adjustments	--	--	--	(4,903)	--	(4,903)
Selling and marketing expenses						385
Administrative and general expenses						2,214
Financial expense						4,412
Financial income						(2,192)
Other expense (income)						479
Gain on sale of investment						17
PROFIT BEFORE INCOME TAXES						4,642

	As at June 30, 2017 (Unaudited)					
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	Total
Assets	158,106	153,912	39,318	162,897	262	514,495
Liabilities	81,833	73,923	20,847	51,350	95	228,048
	76,273	79,989	18,471	111,547	167	286,447

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6 SEGMENTED INFORMATION (continued)

	For the six months ended June 30, 2016 (unaudited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	37,200	22,885	--	--	--	60,085
Income from investment properties	--	--	1,911	--	--	1,911
Sale of residential real estate	--	--	--	18,335	--	18,335
Other operation income	--	--	--	--	218	218
	37,200	22,885	1,911	18,335	218	80,549
EXPENSES AND COSTS						
Hospitality operating expenses	29,443	21,324	--	--	--	50,767
Operating expenses of investment properties	--	--	647	--	--	647
Cost of sale of residential real estate	--	--	--	17,303	--	17,303
Development periodic costs	--	--	--	835	--	835
Other operation expense	--	--	--	--	42	42
Depreciation	1,446	1,619	--	35	113	3,213
Write-down (appreciation) of real estate inventory to net realisable value	--	--	--	2,655	--	2,655
	30,889	22,943	647	20,828	155	75,462
SEGMENTED RESULTS	6,311	(58)	1,264	(2,493)	63	5,087
Loss (gain) from fair value adjustments	--	--	--	(2,790)	--	(2,790)
Selling and marketing expenses						853
Administrative and general expenses						2,159
Financial expense						4,276
Financial income						(7)
Other expense (income)						(33)
PROFIT BEFORE INCOME TAXES						629

	As at June 30, 2016 (Unaudited)					Total
	Hospitality USA *)	Hospitality Canada	Investment properties	Development	Other	
Assets	90,082	96,815	34,762	155,784	223	377,666
Liabilities	58,669	61,813	20,441	61,030	218	202,171
	31,413	35,002	14,321	94,754	5	175,495

*) See note 2e

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6 SEGMENTED INFORMATION (continued)

	For the year ended December 31, 2016 (Audited)					Total
	Hospitality USA	Hospitality Canada	Investment properties	Development	Other	
REVENUE						
Hospitality income	70,349	48,153	--	--	--	118,502
Income from investment properties	--	--	3,695	--	--	3,695
Sale of residential real estate	--	--	--	25,551	--	25,551
Other operation income	--	--	--	--	246	246
	<u>70,349</u>	<u>48,153</u>	<u>3,695</u>	<u>25,551</u>	<u>246</u>	<u>147,994</u>
EXPENSES AND COSTS						
Hospitality operating expenses	55,875	43,924	--	--	--	99,799
Operating expenses of investment properties	--	--	1,577	--	--	1,577
Cost of sale of residential real estate	--	--	--	23,540	--	23,540
Development periodic costs	--	--	--	1,458	--	1,458
Other operation expense	--	--	--	--	85	85
Depreciation	2,980	3,534	--	--	121	6,635
Write-down (appreciation) of real estate inventory to net realisable value	--	--	--	2,993	--	2,993
	<u>58,855</u>	<u>47,458</u>	<u>1,577</u>	<u>27,991</u>	<u>206</u>	<u>136,087</u>
SEGMENTED RESULTS	11,494	695	2,118	(2,440)	40	11,907
Loss (gain) from fair value adjustments	--	--	(3,850)	(3,245)	--	(7,095)
Selling and marketing expenses						1,463
Administrative and general expenses						4,895
Financial expense						10,332
Financial income						(211)
Other expense (income)						869
Gain on sale of investment						(8,574)
PROFIT BEFORE INCOME TAXES						10,228

As at December 31, 2016

	(Audited)					Total
	Hospitality USA *)	Hospitality Canada	Investment properties	Development	Other	
Assets	160,625	152,415	39,327	167,238	148	519,753
Liabilities	80,055	73,105	21,330	57,773	118	232,381
	<u>80,570</u>	<u>79,310</u>	<u>17,997</u>	<u>109,465</u>	<u>30</u>	<u>287,372</u>

*) See note 2e

7 SUBSEQUENT EVENTS

a. Port McNicoll

In July 2017 the Company completed the sale of the Port McNicoll Project lands for \$41,967. The buyer paid \$4,197 on closing. The Company provided Vendor's take back (VTB) secured by first mortgage on the project lands totalling \$37,769, bearing 2% annual interest payable in 71 monthly installments of \$350 and annual payment of interest. The balance is payable at the end of six years. The Company can discharge all or portion of the VTB at the buyer's request subject to early payment of all or part of the outstanding balance.

b. Construction loans

In July 2017 the Company obtained construction loan commitments totalling \$15,200 from two Canadian banks to fund construction of its condominium project at Horseshoe (Slopeside lodge) and land servicing at Blue Mountain at 4.70% annual interest.

c. Acquisition of 13 hotels branded under Marriott Courtyard

On August 2nd, the Company it signed a conditional agreement for the purchase of 13 Select-Service hotels in the US for US \$135 million (before transaction costs). As part of the agreement, the Company provided a US \$1.5 million deposit and received a 50-day exclusivity period for carrying out due diligence. During this period, the Company may terminate the agreement for any reason if the results of the due diligence are not to the satisfaction of the Company. The Company will have a 45-day closing period after due diligence.